

Student Name:

PES

2021 ACCOUNTING UNIT 4

Outcome 1

EXTENSION OF RECORDING AND REPORTING

SOLUTION

Question 1 (8 marks)

a.

i.

1 mark

18 days x \$450 (Monday 7th – Wednesday 30th, excluding weekends)

Accrued Wages: \$8 100

ii.

1 mark

22 days x \$450 (Mon-Fri only)

Wages Expense: \$9 900

iii.

1 mark

$\$8\ 100 + (2 \times \$495)$ (10% increase in July)

Wages Paid: \$9 090

b.

3 marks

**Mon's Mats
General Ledger**

Wages

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
4/6	Bank (1)	1 800	30/6	P/L Summary (1)*	9 900
30/6	Accrued Wages (1)	8 100			
		9 900			9 900

Marks as indicated

- 1 mark if account is not totalled

c.

2 marks

Explanation: Under the accrual basis assumption revenues earned should be matched with expenses incurred in the current period to calculate an accurate net profit (1). Balance day adjustments are required to adjust the revenue accounts to reflect the revenue earned and adjust the expense accounts to reflect the expenses incurred in the current period and so an adjustment was required to determine the Wages expense for the period. (1)

Question 2 (8 marks)**Econoworld
General Journal**

Date 2021	Details	Debit	Credit	
30/6	Disposal of Motor Vehicle	25 000		1
	Motor Vehicle		25 000	
	Accumulated Depreciation of Motor Vehicle	21 300		1
	Disposal of Motor Vehicle		21 300	
	Motor Vehicle	3 000		1
	Disposal of Motor Vehicle		3 000	
	Loss on Disposal of Motor Vehicle	700		1
	Disposal of Motor Vehicle		700	
	Bank	32 200		1
	Loan – WC Bank		32 200	
	Motor Vehicle	29 000		1
	GST Clearing	3 200		1
	Loan – WC Bank		32 200	1

Question 3 (13 marks)

a.

4 marks

**Linda's Lamps
General Journal**

Date 2021	Details	Debit	Credit	
31/5	Allowance for Doubtful Debts	4 050		1
	GST Clearing	405		1
	Accounts Receivable – A. Akroyd		4 950	1
	Bank	495		1

b.

3 marks

**Linda's Lamps
General Ledger**

Allowance for Doubtful Debts

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
31/5	Accounts Receivable (1)	4 050	1/1	Balance	550
30/6	Balance	1 368	30/6	Bad debts (1)	4 868
		5 418			5 418
			1/7	Balance	1 368

1 mark for all Balances – opening, closing and balance brought forward

c.

2 marks

**Linda's Lamps
Balance Sheet (extract) as at 30 June 2021**

Current Assets	\$	\$
Accounts Receivable (1)	67 050 (1)	
Less Allowance for Doubtful Debts (1)	(1 368) (1)	65 682*

- 1 mark if balance is not carried over

d.

4 marks

Explanation: The provision of the Allowance for Doubtful Debts ensures that the Income Statement provide a more Faithful Representation of the firm's performance and the owner has all Relevant information that may affect decision making. (1)

It also ensures that the Balance Sheet provides a Faithful Representation of the amount owed by Accounts Receivable, as the information is not only accurate but also complete. In turn, this ensures that the report contains all the information that may be Relevant to decision-making (1)

Omitting the effects of Bad debts expense from the Income Statement and Allowance for Doubtful Debts from the Balance Sheet is unethical, as it would mean the reports would represent the firm's profit and position in a more favourable light, but one that was ultimately inaccurate. (1)

The reports would be misleading, so any decisions made by the users (in this case the Bank in securing a loan) based on the information they contained could be false and ultimately damaging to the business and its owner. (1) It Over-inflates the value of Accounts Receivable and the cash the business will potentially receive in the future. The business may receive a loan they are not able to afford.

Mark globally

Question 4 (16 marks)

a.

3 marks

**Courtney's Vinatge Clothing
General Ledger**

Prepaid Rent Expense

Date 2021	Cross-reference	Amount	Date 2021	Cross-reference	Amount
<i>1/1</i>	<i>Balance</i>	<i>1 200</i>	<i>31/3</i>	<i>Rent Expense (1)*</i>	<i>4 000</i>
<i>1/2</i>	<i>Bank (1)</i>	<i>8 400</i>		<i>Balance</i>	<i>5 600</i>
		<i>9 600</i>			<i>9 600</i>
<i>1/4</i>	<i>Balance</i>	<i>5 600</i>			

1 mark for all balances

*8400/6x2+ 1200

b.
Courtney's Vintage Clothing
General Journal

10 marks

Date 2021	Details	Debit	Credit	
31/3	Unearned Sales Revenue	1 000		1
	Accounts Receivable – Olden Days	3 620		1
	Sales		4 200	1
	GST Clearing (on the full value of the sale)		420	
	Cost of Sales	2 100		1
	Inventory		2 100	
	Accrued Interest Revenue	120		1
	Interest Revenue		120	1
	Drawings	90		1
	Inventory		90	
	Rent Expense	4 000		1
	Prepaid Rent Expense		4 000	
	Inventory	770		1
	Inventory Gain		770	

c.

3 marks

Explanation: In the **Balance Sheet** when the interest is received on 30 June 2021, the Current Asset Bank will increase by \$300, and the Accrued Interest Revenue account will decrease by \$120 leaving an overall

increase in Assets of \$180. There is no effect on Liabilities however Owner's Equity will also increase by \$180 due to the increase in Other Revenue of \$180 for the interest earned in April, May and June. (1)

In the **Income Statement** Other Revenue will increase by \$180 and Net Profit will increase by \$180. (1)

In the **Cash Flow Statement** Operating Inflows will increase by \$300 leaving an overall increase in Bank by \$300. (1)

When asked to explain the impact on the financial reports the Chief Assessor now advises that students must link the effect to the report being identified

Question 5 (5 marks)

Evaluation: The owner's decision to depreciate the Equipment using the reducing balance method may be correct if this method is the best reflection of the revenue earning ability of the Equipment. (1) The owner should make their decision based on how the Equipment is expected to earn revenue and if the Equipment is expected to be more productive when it is new and less as it ages then the Reducing Balance method would be the most appropriate (1) as it allocates a higher depreciation expense in the earlier years and less as the asset ages and becomes less productive.(1)

However, if the Equipment is expected to contribute evenly to earning revenue over its life then the Straight-Line method should be adopted. (1) This method will allocate the same depreciation expense each period as it assumes that the asset will contribute equally over its life to earning revenue. (1)

The owner should not base their decision on the impact on net Profit as over the life of the asset the overall impact on net Profit will be the same. (1)

Response should be marked globally

END OF SOLUTION